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PHILIP MORRIS IC SUBMISSION : DRAFT "DOC. 3" 16/2/94 (6.30 P.M.)

Deregulation of the Tobacco Industry

1. **Introduction**

Changes to the tobacco industry after deregulation in 1995 should be designed to lift the industry's international competitiveness and secure significant economic benefits to the Australian economy.

As the Industry Commission considers appropriate structures for the industry post-1995, changes are already occurring within the industry. Manufacturers like Philip Morris Limited (PML), a significant economic entity in its own right, are seeking to expand export business with considerable potential flow-on benefits to other industry sectors and the economy in general.

Deregulation is essential to an improved, viable economic future for the tobacco growing industry, and to ensure the flow on benefits. The viability of the growing industry is, in part, dependent on the ability of Australian tobacco growers to lift leaf quality standards and compete on price internationally without the benefit of assistance afforded by the Tobacco Industry Stabilisation Plan (TISP) and the Local Leaf Content Scheme (LLCS) which, during ^{THEIR} ~~its~~ ^{HAVE} ~~has~~ tenure, ~~has~~ substantially mitigated ~~the~~ competitiveness of Australian tobacco growers. Tobacco manufacturing in Australia is currently a viable and competitive business.

From a manufacturing viewpoint, the Commission must give full weight to the impediments of operating efficiently in a commercial environment currently heavily regulated and subject to government interventions which contribute nothing to achieving positive outcomes for the Australian economy, let alone the tobacco industry.

PML has a long term commitment to Australia and to the viability of its Australian manufacturing and marketing operations, first established in Victoria forty years ago. PML has provided the tobacco growing industry with encouragement and direct assistance to raise their crops to international quality standards. Despite these efforts and the efforts of others since the last industry inquiry in 1987, there has been little overall change in the quality of Australian tobacco leaf, although manufacturers under the assistance scheme, have used 57% of local leaf in their cigarettes.



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The tobacco industry and the Australian economy will both benefit from the termination of current protection arrangements. Our comments are designed to highlight areas which we see as essential for industry and government focus and essential to achieving long-term viability for the industry.

2. Cigarette Export Opportunities, the Challenge to Achieve Participation for Australian Leaf

(i) Cigarettes : Exports and Economic Benefit

The export of Australian made tobacco products offers the best opportunity for maintaining a prosperous tobacco industry with flow-on benefits to the Australian economy. PML sees increased export participation as imperative for the company and the rest of the industry, including the tobacco growers.

Australian manufacturers presently supply a relatively small domestic market, but have the opportunity to sell into those overseas markets where cigarette consumption is increasing. Consumption of manufactured *tobacco products* - mainly cigarettes - is increasing in markets like Asia, with current consumption increases in the Asian region estimated at 2%¹ annually. Progressive improvement in living standards, increasing disposable income and the relaxation of trade barriers in the Asian region all contribute to increased cigarette consumption in countries of the region. The table below shows recent consumption patterns for China and Indonesia over five years to 1993.

Tobacco Sticks Consumed²
(millions per year)

	1989	1990	1991	1992	1993
China	2,182,553	2,200,495	2,501,866	2,681,960	2,809,200
Indonesia	126,207	140,214	130,867	133,650	137,960

In contrast to our regional neighbours, cigarette consumption in Australia has grown at a compound annual rate of 0.1% in the 10 years prior to 1991. Since 1991, consumption has declined at an annual rate of 4.7%.³

1 Philip Morris Industry Facts Book

2 Source: United States Department of Agriculture, Foreign Agricultural Service

3 Price Waterhouse Industry Data





International trends forecast a continuing, modest increase in world consumption of manufactured tobacco products over the next 5 to 10 years, with overall world consumption increasing particularly in developing countries.

Cigarettes are already exported from Australia. Although sales volumes are currently small they have nevertheless grown at a compound annual rate of 21.4% for the past three years. The balance of trade on manufactured tobacco product is now in Australia's favour by about 3:1 with net exports currently in excess of imports at around 652 million sticks exported annually.

At least in the short term the best opportunity for Australian tobacco growers to participate in exports is through the inclusion of their leaf in value added manufactured products such as finished cigarettes and semi-processed leaf.

In many developing countries, tobacco products are of a poorer quality than the quality level of international-style machine made cigarettes like those produced by Australian manufacturers. As better quality products gain markets in these countries there will be pressure on local tobacco and tobacco products manufacturers to raise quality levels. Consumers will, over time, get the benefit of better products with lower tar and nicotine content.

Opponents of our industry will argue that Australian cigarette manufacturers should not be encouraged to export. This argument is based on unsubstantiated health grounds and, in any case, overlooks the fact that in almost all developing countries tobacco consumption already exists with products in a variety of formats (i.e. chewing tobacco, cigarettes, snuff, roll-your-own), often well below the quality of cigarettes made by the international companies. The export of tightly specified cigarettes of a high quality standard is aimed principally at converting the current consumption in these countries to better standard manufactured cigarette products.

In this respect, we, therefore, reject the premise that Australian Government policy should be directed to discouraging exports and we urge the Government to adopt a position which does not inhibit the potential for Australian tobacco products to participate in export opportunities as they emerge.

(ii) Imports and the Australian Domestic Market

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The low levels of imports of cigarettes is primarily due to the highly competitive pricing conditions that apply to the domestic market. and The market is also characterised by strong brand portfolios with the result that new entrants would need to price very competitively indeed to gain viable market share. Thus whilst market entry is possible, the returns are likely to very small.

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Of the total Australian cigarette market of 31 billion sticks in 1993, only approximately 0.8%, or 248 million, are imported product.⁴

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~~The low level of imports of cigarettes is primarily due to the small volume of the Australian market, the strong brand portfolio of Australian manufacturers and the likely low entry level market shares that would be achieved by new participants. Further daunting restrictions apply to a number of areas, including marketing, point-of-sale and advertising. The extremely competitive pricing conditions that apply to the domestic market also detracts from its overall attractiveness to a foreign supplier.~~

Consequently, current domestic cigarette manufacture accounts for approximately 99% of locally consumed products and an extremely small proportion of imported product is successfully marketed.

Imports are primarily at the extreme luxury end of the market with very specialist consumption requirements. Hand-rolled products, pipe tobacco and cigars have a significantly higher share of imported product.

(iii) Leaf : Competitive Market Quality

Current worldwide leaf production is estimated at 7.3 billion kilos, major producers being China, the US, India, Brazil, Turkey and Greece.

The following table shows world production for unmanufactured tobacco leaf in the leading countries.

Unmanufactured Tobacco Production, Trade in the World and Selected Countries
(Metric Tons, Dry Weight)⁵

4 Price Waterhouse Industry Data, and PML Research Data





	1988	1989	1990	1991	1992
Production					
WORLD	6,297,415	6,539,880	6,548,301	6,994,053	7,314,616
China (Mainland)	2,480,470	2,580,248	2,393,710	2,741,850	3,084,100
United States	559,139	558,127	663,416	679,456	702,743
India	330,666	443,540	507,960	500,310	520,919
Brazil	342,000	372,000	351,000	337,000	474,000
Turkey	181,858	223,699	242,433	198,708	267,370
Zimbabwe	104,324	114,666	120,279	153,211	181,793

While some other countries use large volumes of leaf they are not necessarily involved in world leaf trade because they grow domestically for their own use. PML in Australia currently buys 57% of its leaf domestically. The US is the next largest source, with the balance from Brazil, Zimbabwe, Malawi, Turkey and Greece.

World prices for leaf vary between source countries. The following table demonstrates the absence of price competitiveness of Australian leaf production:

Producer	Volume (Kilos)	Farm Gate Value ⁶ (\$ Green Kg) 1993
China	3.3 billion	85-100 cents

5 Source: USDA/FAS

6 Source: USDA/FAS/PML Data 1993 est.





USA	660 billion	5.15
Australia	12.5 million	6.14

In Australia, marketing entitlements for 1994 are 8.1 million kilos at \$6.03 per kilo.

As deregulation takes effect tobacco growers must focus on leaf quality. Tariff protection and industry assistance has meant grower focus has been on quantity not quality to the overall detriment of returns to the industry, and ultimately to the detriment of the economy. Manufacturers, while using 57% local leaf under the industry assistance scheme have had no incentive to use a higher percentage because of quality deficiencies and prices remaining too high by world standards. Australian manufacturers would have a greater incentive to use a higher percentage of Australian tobacco if it was world competitive, but would want the ability to exercise grade selection and to operate as freely in the domestic market as they do now in the international market. Trading terms and conditions would also need to reflect the world situation.

The challenge for Australian growers post deregulation is to achieve international competitiveness and secure markets in an increasingly less protected world trading environment. Growers have the potential to maximise returns, with improvements in quality, productivity, efficiency, and management, thereby overcoming the isolation from market price signals that has occurred during the stabilisation period.

f *exceeding*
In the international leaf commodity market a large surplus has been produced, ~~this surplus exceeded~~ demand in 1993, a situation which is likely to continue in 1994/95 and possibly 1996. As a consequence, leaf production in the major producing countries will decline, as producers respond to lower returns for tobacco and switch to other crops, ~~hence~~ ^{with} a low point in the commodity supply cycle ~~is~~ likely to develop beyond 1996. *✓*

International leaf prices declined significantly in 1992 and 1993 while Australian prices remained stable. With world prices expected to decline yet again in 1994 and 1995 Australian tobacco will be significantly overpriced in these years, by as much as 50% based on an import substitution price of \$4.02 per kilo.

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PML's own international leaf buyers in the US and Europe have previously commented unfavourably on Australian standard leaf grades, further highlighting the need for an emphasis on quality improvement.

Initially, growers would need to discount price in order to gain entry to international markets. This would be essential to obtain customer trial of Australian leaf. It, therefore, must be assumed that in the early stages of establishing demand for exports the price available would be lower than that applicable to the main trading countries, such as Brazil and Zimbabwe.

While there have, so far, been limited exports of Australian leaf, PML nevertheless secured a contract in 1993 to sell semi-processed product to Taiwan. This particular business must be seen as opportunistic and is unlikely to be repeated. There are, however, opportunities to export semi-processed leaf to other markets and PML is actively exploring these.

(iv) Future Domestic Requirements

The Australian crop will decline from 12.5 million kilos in 1993 to 8.1 million kilos in 1994, the decline primarily ~~reflects~~ ^{REFLECTING} inventory adjustment from the present level of stock holding, which represent nearly 15 months of usage to 10 months by the end of 1995. ~~Thereafter~~ ^{AFTER} production quantities will equate with domestic manufacturing requirements ~~which~~ ^{WHICH} currently ~~are~~ ^{estimated} to be 10 million kgs dry weight.

(v) From Filler to Semi-Aromatic : Quantum but Achievable Change

The Commission should be aware that Australian growers currently produce a style of tobacco known as filler tobacco, or tobacco which does not substantially and positively impact on the taste profile. The highest quality classification is fully aromatic, currently only produced in the US. The middle quality classification is semi-aromatic, of which Brazil, Zimbabwe and Malawi are the major producers.

*move to next page & insert ** The potential for Australian growers ~~to be competitive~~ ^{however,} is significantly enhanced if they move from producing tobacco in the lower priced, filler end of the market to producing for the mid level, semi-aromatic sector where the prices for the product are higher. ~~Growers have no realistic export opportunities for filler tobacco as other producers will continue to undercut our growers due to significantly lower production costs.~~



WILL NOT BE ~~ABLE~~ ^{by remaining}
Australian growers will not, therefore, be able to compete effectively in a deregulated market, either for the domestic market or export opportunities in the filler sector of the market. Competing countries with lower labour and other input costs will always be in a superior competitive position to supply filler style tobaccos.

Insert from previous page → Farmers producing semi-aromatic tobaccos internationally have in 1993 received between \$3.75 and \$4.45/kg green. After allowing for conversion costs, yields, transport to Australia and a component for higher inventory costs, this equates to a farm price, in Australia, of around \$4.25 to \$4.95/kg green for similar tobaccos. This represents a significant quality drive increase on the present import substitution price when it is applied to existing quality standards of Australian tobacco.

Upgrading the Australian crop to the semi-aromatic category will require a consistent commitment to quality driven by improved cultural practices, ~~but it~~ ^{is} THE singularly ~~the~~ most important factor in future success. AND

~~Therefore, PMH believes this is an essential strategic direction which must be achieved~~ to ensure a sustainable future for the Australian industry.

(vi) Consumer Taste Choice

If the Australian tobacco growing industry is to participate in the export of manufactured cigarette market, then the taste profile of Australian leaf is of major importance. X

Currently Australian tobacco leaf generally does not have the taste profile, or even the chemical performance to be competitive with other internationally produced Virginia cigarettes now sold in international markets. Quality improvements will result in our tobacco being more readily used in Australian manufactured export products.

Specifically, Australian growers need to reduce the relatively high nicotine content of their leaf so as not to be excluded. To correct the problem, less nitrogen should be used, ^{AND} crops ~~should be~~ grown faster at the correct time of year. Growers need to acquire a greater level of market awareness and understanding of the requirements of the end-users of their product. Modification to growing methods, resulting in lower nicotine content, also further enhances the opportunities for securing export contracts for unmanufactured leaf.



(vii) Australian Leaf Marketing/Selling System : Market Signals Vital to a Secure Future

AS
X As the Commission will be aware, the departure of some growers from the industry ~~is~~ a consequence of deregulation is inevitable. Some existing growers, while viable in domestic terms in the regulated environment, will not be viable on price and/or quality, when exposed to international market forces.

AND
A large proportion of the lower grades produced will find no market with manufacturers, ~~therefore~~ AND growers who continue to produce these grades will be unlikely to survive ~~into the future~~. Marginal areas such as inland New South Wales are unlikely to have the capacity to affect the necessary quality improvement, and it is doubtful that these growers will succeed in the future.

AND
V The current market system grade/price schedule has not, in effect, rewarded those areas that reflect manufacturers' demands, resulting in negative outcomes, for example:

- Few price levels have resulted in "insensitivity" (price gaps too wide).
- Emphasis on colour has been misleading.
- Grade/price structure has rewarded production of tonnes/hectares, not quality.
- There has been no recognition of the importance of maturity/texture/oiliness of leaf.
- Grower reluctance to accept change has been reinforced by TISP/LLCS.
- Research effort (especially North Queensland) has focused on exploiting grade/price schedules, with little attempt to reflect buyer's changing quality requirements.

X The grading system places undue emphasis on leaf colour with insufficient emphasis on maturity, ripeness and texture of tobacco, ~~and over time there has been reluctance to embrace the need for quality improvements.~~ WITH A
OVERTIME?

The industry arbitration system procedures have been totally negative, serving only to create conflict between growers and buyers and, most importantly, protecting poor growers and not rewarding good growers.

X There is industry agreement to introduce an international classification grading system for the 1994 and 1995 crops, to run in parallel with the current system, and to form the foundation for the post-deregulation environment.



While the new, international classification system will introduce an emphasis on leaf maturity, ripeness and texture, all contributing to general quality improvements, and enhancing competitiveness in 1994, and 1995, the incentives to growers will still be based on the old grading system with the accompanying inadequate quality signals.

Agreement has been reached for the grade schedule to expand from 10 to 24 price groups in 1994. This move only partially rectifies the problem, and in 1995 pricing and payment should be linked to the new international classification system. This would assist the transition to the post stabilisation ~~ERA~~ commencing for the 1996 crop.

Allocation versus competitive bidding for tobacco leaf is an issue to be resolved in any restructure of the industry, as the Commission mentioned in its Issues Paper. A range of options are still under consideration by the industry:

- National Australian growers entity trading with manufacturers.
- State grower entities, trading individually and negotiating separately with each manufacturer.
- Open auctions.
- Direct contract agreements between each manufacturer separately, and with individuals/grower groups.

A system of individual contracts with each manufacturer is likely to be the least efficient and least cost-effective, however PML is prepared to participate in any system which is legal, equitable and maintains continuity of supply of a quality product at a commercially competitive price.

PML recognises that competitive bidding at auction allows an element of selectivity, and affords any given buyer the opportunity to reward leaf favoured for purchase. However, with only three buyers at auction, there may be insufficient competition to sustain a true auction system, largely resulting in a form of allocation in any case. Conversely, allocation does ensure equity amongst all buyers and sellers, although there may be problems if buyers do not distribute their requirements on a pro-rata basis between states, even though ultimately this will reflect buyer preferences and the growers ability to respond to the quality improvement required.

In a free market environment, it is likely that manufacturers would table their leaf needs, and it would be up to the growers, negotiating between themselves, to apportion shares of the manufacturers requirements. Eventually, a situation is envisaged where a manufacturer may demonstrate a preference for



individual areas by shifting orders to suppliers who produce the highest quality. That would be a radical change in the industry, but entirely consistent with the government's stated objective of a deregulated, fully competitive industry.

With this outcome, however, manufacturers will need to recognise that adjustment to cultural practices will take time and require motivation by the appropriate commercial signals. Understandably, growers do not altogether share PML's vision of an unregulated, competitive market requirements of the ~~Trade Practices Act~~ ^{AND ARE KEEN} ~~are~~ keen to maintain many of the current mechanisms in the present marketing system, with as little change as possible.

Manufacturers' decisions will have to be made on the basis of the price and quality of a particular crop resulting in a highly competitive, internationally aligned market. Prices would come down. Quality would go up.

A market operating this way would have no state by state or national standard pricing. Instead, separate pricing systems would operate between manufacturer and grower, based on the manufacturer's own crop value assessments.

The areas growing the best tobacco at the same price as the world market would clearly have a better opportunity for sales under this system.

(viii) Research and Development : PML Assists Transition

Assistance to improve quality in the industry has, to this point, rightly been focused on research and development, with growers and manufacturers making equal contributions equivalent, in total, to 5.4 cents a kilo. Government has contributed half a percent of the gross value of product (green leaf), and should be encouraged to maintain a level of contribution which assists further in boosting the industry's quality improvement and ~~therefore~~ export potential.

While research and development funding will effectively decrease in coming years because of lower volumes and revenues, measures to deal with the decreases are being handled by the Tobacco Research and Development Council (TRDC), of which a PML employee is a member. The TRDC is



considering ways, whereby the decreased funds can be best spent to assist in quality improvement, and reduced leaf production costs.

PML, on its own initiative, has provided company funds of approximately \$50,000 on the provision of technical advice in the growing areas/in 1992/93, over-and-above the required contribution under the current scheme. Additionally, the company has invested approximately \$115,000 in 1993 and a projected \$80,000 in 1994 as the company's mandatory 2.7 cents per kilo contribution.

There have been three visits in the past two years to Australia of Philip Morris experts from the US on growing and technology, and Victorian, Queensland and New South Wales growers were hosted on visits to the US in 1992 and 1993 to study growing methods and the application of the latest technology.

PML leaf experts at the Moorabbin plant in Victoria have continued to reinforce with local growers, the lessons learnt from the US visits, with our own initiatives being quite successful in fuelling the beginnings of the process of change, particularly in Victoria, and to a lesser extent in Queensland and New South Wales. We will complement the work of the TRDC by allocating funds in 1994 to host additional US study visits by Australian growers to support the continued transfer of the latest techniques and technologies. Maintenance of current R&D budgets of the TRDC will start to bring flow-through benefits to the industry as it moves into the de-regulated environment.

(ix) Tariffs : Negative Impacts

As outlined, overall protection in the industry has had negative effects and should be disbanded, as proposed from 1995 onwards.

As the Commission considers key structural issues, *tariffs* are central to its inquiry, with termination of protection set for 1995. Assistance, particularly in recent years, has had negative effects and should be discontinued.

There is *no need for a continuation of tariffs* for the industry. Eliminating tariffs will bring positive benefits to the industry and the Australian economy over the long-term, including:

- Industry efficiency and quality improvement will be encouraged.
- Improved efficiency will ensure the industry is more competitive.

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- Consumers will benefit and export opportunities will be enhanced.
- Import substitution will also be more attractive.
- Export growth will generate increased employment with flow-on benefits to local industries and communities.
- There will be no need to maintain bonded warehouses for tobacco leaf or the duty drawback system (currently essential for maintaining the competitive position of manufactured product exports). Associated costs and administrative systems for HM Customs and industry will be eliminated.
- There will be no perpetuation of the inefficiencies seen under TISP (with reduced focus on quality improvement, cost efficiency, productivity and market-driven selling systems).
- Government policy in respect of deregulation will be satisfied.

A tariff in fact will not support domestic prices. Any tariff over the level applied to the existing level of imports of 43% will be netted against the price paid for the domestic component, as manufacturers seek to at least maintain the input cost of total leaf in aggregate.

The maintenance of tariffs at any level to benefit growers in transition, will require a concomitant level of protection applied to manufactured products. Without this balanced protection, the sale of imported products containing no Australian leaf could expand to the detriment of both Australian growers, manufacturers, their employees and businesses serving the industry.

Despite the PML position outlined above, if any form of tariffs are implemented, it should only be during a temporary period of adjustment to deregulation. It should be applied on a declining basis, providing the industry with a diminishing level of protection during restructuring. The revenues that accrue from such tariffs should be available to facilitate industry adjustment in the following ways:

- Grower premiums.
- Exit assistance to growers unlikely to be viable in the long-term.
- Additional TRDC research programs.
- Export promotion and assistance.
- Improving the efficiency and cost base of the industry, including infrastructure (e.g. modern leaf processing plants).

PML has a clear preference that in the event that a protective tariff is applied, it should adopt the present specific rate mechanism and not install an ad valorem tariff. An ad valorem tariff would be prejudicial to the import of



quality, higher priced tobaccos, such as the US, fully aromatic types, and in no way would it provide additional support for Australian leaf.

Also assuming that a tariff is adopted, the lower tariff rates currently applied to imports of tobacco and manufactured products from developing countries should be withdrawn, within an overall reduction to the tariff regime which reflects equity for importers from both developing and developed countries.

Australian growers will also benefit by this approach, receiving assistance in the low quality/cost sector of their production, whilst leaving incentives to improve quality for the long-term viability and sustainability of the industry.

The rationale is also consistent for manufactured products, with production costs in developing countries typically lower than those of developed countries, which are therefore less competitive.

(x) GATT : Unintentionally at Odds with Government Policy on Tobacco Deregulation

(DFAT)

While the Commission is considering structural changes for the tobacco industry post-regulation, PML is concerned that the proposals emanating from the Department of Foreign Affairs and Trade on GATT tariffication will have the direct effect of negating Government policy to remove protection from the industry.

The timings associated with the GATT proposals make no sense and are of no benefit, either to industry or Government.

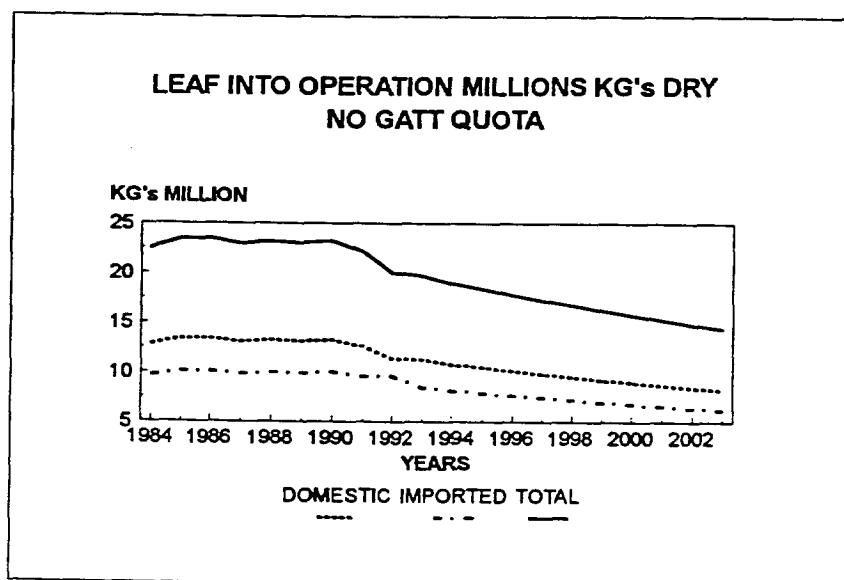
As we understand it, the proposed date for implementation of the Uruguay Round is 1 January 1995, or by 1 July 1995 at the latest. Abolition of the TISP and the LLCS is scheduled for 30 September 1995 and we understand that the tariff rates to apply after this date are to be driven by the recommendations of the IC inquiry. It therefore appears that the rates and structure as proposed from the Uruguay Round would, at the most, apply for a period of 9 months (1 January 1995 to 30 September 1995), or possibly for as little as 3 months (1 July 1995 to 30 September 1995).

The GATT proposals also envisage a quota for imported tobacco, with a penalty tariff rate being applied to imports in excess of this quota. We see no need for any such quota. As currently formatted, we believe the proposals are unworkable. In order to achieve equity amongst domestic manufacturers, it would be necessary for this base quota to be allocated to manufacturers



according to a formula on an auction tendering system. We see considerable difficulty in determining the basis and mechanics for such a formula and in the case of an auction/tender system, we see this as being completely unnecessary and could introduce a speculative element to administering those imports which would be negative to the industry and the Australian economy. In addition, it is proposed that the tariff rates for imports in excess of the quota of 11,184 tonnes per annum be at a level of 30%, declining to 25% over a period of six years. This rate is both totally excessive and unnecessary.

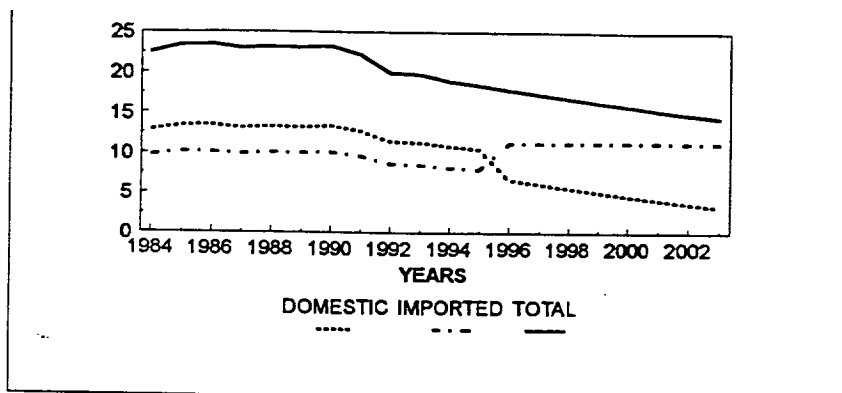
With the quota applying, there would be every incentive for manufacturers to fully utilise it, particularly within an auction/tender system. With projected total usage levels, the proportion of local tobaccos used would fall away dramatically, (see tables below) to the extent that the critical mass for the Australian industry would not be met. A total collapse of the growing industry would occur.



Source: PML (based on current imports)

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Source: PML (based on current imports)

Applying the quota component of the GATT proposals is contrary to interests of the domestic growing and manufacturing industries, and inconsistent with Government policy on reducing assistance to Australian industry. The recommendations of this inquiry should be awaited prior to any commitment to specific protective mechanisms within the GATT schedules.

Given the circumstances applying to the tobacco industry in relation to ^{the} ~~this~~ Industry Commission inquiry, and to stated Government policy to deregulate, an exemption to GATT binding should be sought within a commitment that tariff only protection will be tabled at a level not greater than present protection and not less than existing market access.

We are concerned that the information emanating from DFAT makes no comment on imported manufactured products. We believe any tariff assistance applied to domestic leaf should also be reflected, on an equitable basis, in the tariff rates for imported manufactured products. We question whether there will be quotas associated with such imports, what structures and rates will apply, and how will any quota be distributed. If domestic manufacturers are disadvantaged this will impact the whole industry, the levels of employment, the balance of trade and the flow-on benefits to the local economy.

3. Cigarettes : ~~Highest Product Taxes in the world~~ ^{AND} and ongoing

(i) ~~Effects on Consumption Minimal~~ ^{Dramatic increases}

~~See over for insert~~

~~These The higher levels of tobacco taxation reflect Government decisions to use taxation policy as a measure of regulation rather than a fiscal measure for the generation of revenue. As a revenue measure the system of taxation is~~

Indent → *[in italics]* "Excise and BFFs increase retail tobacco prices by an estimated 120 per cent above what they would otherwise be. This is a "GST equivalent." Combined excise and the BFFs are equivalent to a Wholesale Sales Tax (WST) of around 196 per cent".

FN Smoking: Costs and Benefits for Australia,
Acil Economics and Policy Pty Ltd,
Canberra, 1994

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effective. However, the levels of taxation imposed on tobacco and cigarettes are punitive, regressive and inflationary. As a regulatory measure taxation is an ineffective government tool.

~~In the last decade tobacco taxation increases have been dramatic and are ongoing.~~
Cigarettes are without peer the highest taxed consumer products in Australia.

Primarily as a result of State Licence Fees (SLF) increases, and to a lesser degree, excise increases, the tax component of the retail price of cigarettes has risen from 43.7% in 1983 to 61.1% in 1994. The dramatic ^{increase in} impact of SLF ~~can~~ are illustrated using ~~the~~ SLF revenues in the two most populous states in the table below.

Can this go in a box?

SLF Revenue (\$ millions) ⁷			
State	1982/83	1992/93	% increase
NSW	\$70	\$594.6	749%
VIC	\$84	\$360.4	329%

Source: ~~Phil Morris~~ as per ⁷ below

Although excise increases have only had a marginal influence on cigarette pricing over the past 10 years, this will change following the August 1993 Federal Budget announcement that the tobacco excise rate would increase by 25.2% over a two year period, in addition to any CPI influenced increases during that period.

When a conservative estimate of CPI driven adjustments is added to the planned excise increases, the total excise rate on tobacco will increase by an estimated 34.6% between August 1993 and August 1995; and, because excise increases influence wholesale prices upon which SLF calculations are based, they flow through to increase SLF revenues. Therefore, the excise increases announced in the August 1993 budget, will provide a "windfall" revenue gain to the States of an estimated \$181,000,000 over the next three years, as ~~unexpected revenue gains which are a result of a tax on a tax.~~
shown in the following table.

Estimated SLF Benefit From Federal Excise Increase⁸
\$000's

	NSW	VIC	QLD	SA	WA	TAS	ACT	NT	TOTAL
Fiscal Year 93/94	13,105	11,017	8,759	5,038	4,218	1,309	975	406	44,827

⁷ Source: Australian Tobacco Marketing Advisory Committee, Annual Reports

⁸ Source: Philip Morris



Fiscal Year 94/95	22,250	18,471	14,691	8,558	7,227	2,282	1640	808	75,927
Fiscal year 95/96	17,846	14,814	11,783	6,562	5,541	1,750	1,316	635	60,247
TOTAL FOR 3 YEARS	53,201	44,302	35,233	20,158	16,986	5,341	3,931	1,849	181,001

ASSUMPTIONS:

- SLF constant on February 1993

			CPI Estimate	Excise Budget Plan
• CPI:	1993	August	1.3%	3.0%
	1994	February	0.6%	5.0%
		August	1.75%	5.0%
	1995	February	2.0%	5.0%
		August	2.0%	5.0%
	1996	February	2.0%	0%

- Average WLP calculated from PM average WLP at 1 August 1993
- Excise rate begin (before excise tax) = \$57.67
- Excise rate end (at February 96) = \$79.45
- This excludes any manufacturers price increases.

Volumes:	1994	30.7 billion
	1995	30.1 billion
	1996	29.5 billion

Consumption Effects are Minimal

During this same period of rapid tax driven price escalation, consumption of cigarettes in Australia has been relatively stable. During the 10 years prior to 1991, consumption grew at a compound annual rate of 0.1% per annum. Since 1991, consumption of tobacco products in Australia has declined at an annual rate of 4.7%. There have been similar consumption trends in most developed countries. While the decline reflects changing consumer habits and lifestyle decisions, it is likely that a combination of increased prices, largely tax driven, and adverse economic conditions have contributed to the decline. The consumption levels during a period of significant price escalation suggest that demand for cigarettes is not significantly price sensitive.

Price increases for any commodity or consumer product may affect demand both in the short term and on a continuing basis. Decreases in demand in the short term are generally greater than any observable decrease when demand stabilises following the initial impact of a price increase. These two effects, short and long run, can be analysed statistically using Price Elasticity of Demand techniques (PED).

Recent studies commissioned by PML¹⁰ indicate that the long term PED for cigarettes is -0.345. That is, for each 1% increase in price, consumption will

¹⁰ Price Waterhouse Research Data

10 "The Price Elasticity of Demand for Cigarettes in Australia", Ronald Bewley, November 1994



reduce by 0.345%. Similarly, the short run PED is -0.5 or a reduction in consumption of 0.5% for each 1% increase in price.

The PED is relatively low, implying that very significant price increases would be necessary to materially affect consumption. ~~The use of taxation as a tool of government intervention does not therefore offer either an efficient or effective measure to curb consumption.~~

~~The very substantial increases in taxation since 1983 have had marginal impact on consumption. In order to achieve significant impact on consumption through tax increases, it would be necessary for the Government to impose very substantial tax increases far in excess of those levied to date. Such increases would be both highly inflationary and regressive.~~

(ii) Cigarette Taxes and Equity

Tobacco taxes are highly regressive, impacting far more heavily on lower income people than higher income people. The ABS Household Expenditure Survey 1988-89¹¹ reported that tobacco products accounted for just over 5% of consumption spending by households in the lowest income group, while for high income groups a much lower 2% of consumption spending is on tobacco products. The tax burden and the disparity between low income and high income groups is substantially greater today as a result of several significant increases in Commonwealth and State tobacco taxation since 1989. ~~Government services are most appropriately funded by means of fair, broadly based taxes.~~ In other words, the burden of tobacco taxation falls most heavily on those households with the lowest incomes. For this reason, tobacco taxation is a regressive form of tax. Moreover, it is concentrated on a relatively small group of households.

Experience in other countries has demonstrated that extremely high tax driven pricing invites contraband and threatens the Government's tax base. In Canada, cigarette taxes were raised dramatically in 1988 and 1990 with the intent of reducing the incidence of smoking. Tobacco tax receipts in Canada for 1993 fell by \$1 billion, a decline of 14% attributable not to declines in consumption, but to the creation of a dangerous and illegal trade in contraband. This could happen in Australia despite the national protection from having no land boundaries. The Canadian Government and the Quebec

¹¹ A Profile of "Household Expenditure on Tobacco Products" prepared by ACIL Australia Pty Ltd using ABS data. Published by the Tobacco Institute of Australia 1992.

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As outlined earlier in this submission, extremely high tax driven pricing invites contraband, threatens the Government's tax base and incurs huge social and economic consequences.



~~Government have now announced that tobacco taxes will be cut by more than 50%.¹²~~

It has been argued that regressive taxes of tobacco products is appropriate to offset the suggested financial burden on the community attributable to the reported health risks of smoking. It has been suggested that the perceived cost to society of tobacco consumption outweighs the benefits of the industry to the Australian economy. This rationale has been characterised as the social cost theory.

The social cost theory is the subject of a separate submission by ACIL on behalf of The Tobacco Institute of Australia, of which PML is a member. That submission clearly demonstrates that the social cost analyses are dependent upon assumptions which are flawed or skewed and ignore the benefits of tobacco manufacturing and use. ACIL's views are consistent with those expressed by Price Waterhouse in a recent paper reviewing the latest Australian social costs literature.¹³ As the ACIL submission demonstrated, smoking does not impose costs on society, but rather generates very significant benefits. The Collins and Lapsley Report on the economic cost of drug abuse in Australia,¹⁴ included calculations for the budgetary cost of drug abuse which are fascinating. In 1988, the excise revenues and customs duties derived from sales of tobacco products amounted to \$1,128 million. In addition, \$502 million was collected by State tobacco franchise taxes. Adding in the revenues from taxes on alcohol lifts the revenue contribution to \$2.5 billion. By contrast, the total health expenditure on account of alcohol, tobacco, illicit and licit drugs amounted to \$991 million.

Thus, the smokers and drinkers paid over \$2.5 billion in exchange for \$1 billion of health and medical services necessitated by their vices.

In light of the elasticity of demand for tobacco, it is appropriate to examine the true motivation for the imposition of high taxation on cigarettes. Since high taxation at a level which would not encourage contraband and which would protect the revenue stream is not likely to reduce the incidence of smoking, it must be rationalised for different reasons. As a measure of fiscal policy, it is demonstrably unsound. It is reasonable to conclude, therefore, that it

¹² ~~Canada Cuts Tobacco Tax to Halt Smuggling!~~ The Washington Post, February 9, 1994.

¹³ "Estimating the Economic Cost of Drug Abuse in Australia". Further comment on the Collins and Lapsley Analysis, Price Waterhouse, January 1994. Prepared for the Tobacco Institute of Australia, January 1994.

¹⁴ "Estimating the Economic Costs of Drug Abuse in Australia", David J Collins, Helen M Lapsley. Prepared for the Department of Community Services and Health, January 1991.



represents a punitive measure designed to tax behaviour and circumstances of which certain interest groups do not approve. By that measure or even the dubious standard of taxing behaviour which costs money, it follows that punitive taxes should also be levied on those who drink to excess, certainly on most who drink and drive; certain types of sexual behaviour would certainly qualify for a punitive tax to address the AIDS problem; hypochondriacs surely qualify for a supplementary tax on their incomes; even meat eating should not be immune from having to contribute to defraying the cost of clogged arteries.

Recently it was reported that sporting injuries accounted for \$1 billion in direct medical costs in Australia;¹⁵ perhaps a tax on those who engage in sports would be appropriate to address the social cost. These examples highlight the irrational application of taxation as a tool to modify human behaviour.

(iii) Hypothecation and the Health Foundations

Closely related to the issue of taxation is the issue of hypothecation or what the Commission refers to as publicly funded anti-smoking campaigns. The process of hypothecation renders the budgetary process arbitrary and inflexible. In addition, it creates an unstable source of revenue for funded programs. Perhaps of greater concern is the risk that inefficient or outdated programs may be continued simply because they are financed by earmarked revenues. Responsible fiscal policy requires that programs be evaluated periodically and funded on the basis of their necessity, efficiency and success.

The Victoria Health Promotion Foundation (VHPF) is perhaps the preeminent example in Australia of a public sector organisation whose activities are funded entirely from hypothecated funds. ~~Annexed to this submission (Appendix I) is~~ a study prepared by Price Waterhouse in October 1993 entitled "*A Question of Balance*", a review of "*A Considerable Success*" : An Economic Evaluation of the Victoria Health Promotion Foundation 1987-1992. Price Waterhouse concluded that

"there is no evidence to support the view that the funding of the VHPF has been the most appropriate use of public funds".

Price Waterhouse also noted that there has been no application of the principle of economic efficiency in the operation or evaluation of VHPF. The principles of good government demand that various alternative uses of public monies are

15 "Sports Injuries in Australia, Causes, Costs and Prevention". A report to the Better Health Program, October 1990. Centre for Health Promotion and Research, Sydney.



assessed to achieve the best uses of public resources and returns on investment. Hypothecation precludes such a review and evaluation process. A cursory examination of the activities of VHPF quickly reveals a tenuous connection between its activities and allocation of resources, and legitimate government policies with respect to tobacco.

First, and foremost, it appears both illogical and inequitable to establish foundations which have a charter to promote a wide range of health and safety messages and to place the burden of financial support on one section of the community only - tobacco users. While there are clear precedents for public funding of health promotion campaigns, these are funded out of general revenue whereby all tax-payers contribute to what is perceived to be "*the common good*". The funding arrangements adopted for the health foundations establish a precedent which lends itself to applications in other circumstances where the "*majority*" might impose a tax on the minority which is to be used to undertake some activity of possible benefit to the total community.

Secondly, the source of the hypothecated funds - the SLF on tobacco is a regressive charge or tax. That is, purchasers of cigarettes from lower income groups must use a greater proportion of their disposable income to accommodate the cost of the SLF, than purchasers from higher income groups. The overall regressive impact of SLF is increased because lower income groups constitute a disproportionately high share of tobacco users in the community.¹⁶

The regressive nature of the SLF remains regardless of the use made of the fee by governments. However, when part of the revenue raised is directly allocated to the health promotion foundations rather than into general revenue, issues of equity can arise in respect of the way the foundations spend these funds. For example, it can be argued that some equity could be restored if the foundations allocated a larger part of their funds to activities which are of benefit to lower income groups rather than apply them in a broad fashion without any recognition of the impact on different socio economic groups.

Those least able to pay ^{and} bearing the costs of sponsorship and promotion and of the provision of free entertainment and hospitality to politicians, bureaucrats and business leaders.

4. Passive Smoking and Environmental Tobacco Smoke (ETS) : Case Not Proven

16 "The Price Elasticity of the Demand for Cigarettes in Australia", Ronald Bewley, November 1993.



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The debate on whether governments should regulate smoking in public or work places is often premised on an acceptance of the Commission's view that Environmental Tobacco Smoke (ETS), often referred to as "passive smoking", is a proven cause of chronic disease in non-smokers, a position which PMJ rejects, and which is contradicted by a body of scientific and other evidence internationally.

(i) ETS : A Case of "Smoke and Mirrors"

ETS is a far more complex issue than state and federal governments, and their instrumentalities, have acknowledged in providing justification for the implementation of various policy initiatives. As noted in the Commission's Issues Paper, the government's justification for imposing, or suggesting smoking bans or restrictions, is based upon the contention that it is a proven "environmental carcinogen". We believe the evidence demonstrates this contention is unproven or untrue. PMJ

World-wide data, including eminent scientific/medical evidence, fails to prove that environmental tobacco smoke/ETS or so-called "passive smoking" causes cancer, heart disease or other chronic diseases sometimes attributed to ETS exposure. Much of the evidence supports the proposition that ETS is not even statistically associated with these diseases:

- To date, 35 published studies have examined whether being married to a smoker increases one's risk for lung cancer. 29 of these 35 (i.e. 83%) report no statistically significant increased risk or a decreased risk of lung cancer.
- 14 studies have examined whether workplace ETS exposure increases one's risk for lung cancer. 12 of these 14 report no statistically significant association.
- 6 studies have examined ETS exposure in social settings, which report 10 different risk estimates for lung cancer. 9 of these estimates report no statistical significant association. The other reports a significant decreased risk of lung cancer.

A distinct minority of studies examining ETS/lung cancer is portrayed by anti-smoking advocates as demonstrating that there is a small increased risk of lung cancer (in the range of 19%, they say). By precisely the same reasoning, it can be said that other studies demonstrate that keeping pet birds increases the risk of lung cancer by 570%, that high dietary saturated fat increases the risk by 500%, cooking with peanut or rapeseed oil increases the risk by 170%



and frequent consumption of whole milk increases the risk by 100%. Yes, statistically studies support each of these propositions, yet no-one is calling for a ban on whole milk or pet birds.

The extreme weakness of the arguments supporting the claims that passive smoking is a significant contributor to chronic health diseases, has been noted by eminent scientific and medical commentators.

With regard to lung cancer, Peter Lee's text entitled *"Environmental Tobacco Smoke & Mortality"* (1992)¹⁷ reviewed the studies pertaining to the topic and concluded:

"Considered in its entirety, the epidemiological evidence does not convincingly demonstrate that exposure to ETS increases risk of lung cancer among non-smokers".

In 1993, Dr A Armitage published an article in the Journal of Smoking-Related Disease entitled *"Environmental Tobacco Smoke and Coronary Heart Disease (1993)"*¹⁸, in which he concluded:

"The case for ETS exposure causing CHD (coronary heart disease) is wholly unconvincing because almost all of the accepted 'causational' criteria remain unsatisfied. Note: In the meantime, it is wrong that an ETS/CHD health scare has been blown up out of all proportion in the last few years by a passionate anti-ETS health lobby. Interpretative opinions are not proven facts; they must be challenged and a more balanced point of view presented to the general public."

~~United States Environmental Protection Agency Risk Assessment on ETS released 1993.¹⁹~~

Recently, the United States Environmental Protection Agency (EPA) pronounced Environmental Tobacco Smoke (ETS) to be a class 'A' Carcinogen.⁽¹⁹⁾ Many eminent scientists have criticised the EPA assessment, noting for example that the EPA based its risk assessment of lung cancer on selected and incomplete set of epidemiological studies available.

17 Lee, P, *"Environmental Tobacco Smoke and Mortality"*, Basel, Karger 1992.

18 Armitage, A, *"Environmental Tobacco Smoke and Coronary Heart Disease"*, J Smoking-Related Dis. 4(1):27-36, 1993.

19 United States Environmental Protection Agency Risk Assessment on ETS.





For example, the EPA ignored the two most recent (at that time) studies, by Stockwell²⁰ and Brownson.²¹ If the results of these studies were added to the EPA's meta-analysis, the EPA could not have concluded that ETS was a class 'A' Carcinogen.

Alvan Feinstein,²² Professor of Medicine and Epidemiology at Yale Medical School wrote recently in Toxicological Pathology that the EPA study on ETS *"simply ignored the inconvenient results and emphasised those that are helpful."* Professor Feinstein observed that government agencies funding scientific research often become *"mechanisms of advocacy."*

Further significant criticisms made of the EPA Risk Assessment are detailed in the ~~attached (Appendix II)~~ paper *"Smoke and Mirrors : The EPA's Flawed Study of Environmental Tobacco Smoke and Lung Cancer"* Huber et al, 1993.²³ Among their criticisms, Huber et al noted:

"In its report on ETS, the EPA did not comply with accepted principles of toxicology, chemistry, and epidemiology, nor with its own guidelines for undertaking cancer risk assessment".

(ii) ETS : Venting the Truth

The fact is the phrase *"passive smoking"* is misleading. It suggests that a non-smoker is exposed to the same thing as a smoker. This simply is not the case.^{24 25} Environmental Tobacco Smoke (ETS) is very different from the smoke a smoker inhales. It is a hundred times more dilute and it undergoes extensive chemical and physical changes before it reaches non-smokers.²⁶ To compare ETS with a smoker's smoke is like comparing apples and oranges.

In addition, virtually all of the substances known to be present in ETS are present in the air from other sources (such as office equipment, building materials, cleaning solvents and furnishings). Scientific studies

20 "Stockwell et al Environmental Tobacco Smoke and Lung Cancer Risk in Non-Smoking Women", Journal of the National Cancer Institute, 84,1417-1422, 1992.

21 "Brownson R C et al Passive Smoking and Lung Cancer in Non-Smoking Women", American Journal of Public Health, November 1992: 1525-1530, Vol.82, No.11.

22 A R Feinstein, "Justice, Science and the 'Bad Guys'" Toxicologic Pathology 20(2):1992.

~~23~~ *"Smoke and Mirrors : The EPA's Flawed Study of Environmental Tobacco Smoke and Lung Cancer"*, Gary I. Huber, Robert E. Baselle and Vijay K. Mahajan, Regulation Magazine, 1993 No.3.

24 Baker, R and Proctor, C, "The Origins and Properties of Environmental Tobacco Smoke", Env Int (16):231-245, 1990.

25 Rodgman, A, "Environmental Tobacco Smoke", Reg Tox and Pharm 16:223-244, 1992.

26 Guerin, M, et al, "The Chemistry of Environmental Tobacco Smoke : Composition and Measurement", (Lewis Publishers: Chelsea, Michigan, 1992).



indicated that non-ETS sources release the majority of these substances into indoor air.^{27, 28, 29}

Because ETS is visible and easy to identify, it is frequently blamed for poor indoor air quality. However, scientific studies have concluded that inadequate ventilation is most often the real culprit. If there is a build up of smoke in the air, which indicates poor ventilation, then there is also a build up of other substances from non-smoking related sources.

Many studies from around the world report that ETS is typically a minor contributor to poor indoor air quality. For example, both US government and private studies on "*Sick Building Syndrome*" have reported that ETS is a direct factor in only 2-5% of the complaints in building investigated.³⁰ (22 23 Refer p.....) In contrast, more than half of the complaints in buildings investigated were traced to inadequate ventilation.

Indeed, scientists have had a major problem in measuring ETS in real-world settings because most chemical components of ETS are also produced by many other sources unconnected with smoking and also because many of the chemical components in ETS are present in such minute quantities that they are difficult to detect (18 Refer p.....).

Nonetheless, nicotine in the air is often used as a marker for non-smoker exposure to ETS with the results presented in terms of "*cigarette equivalents*" as a means of illustration.

The results of several recent studies have shown that to be exposed to the nicotine equivalent of one cigarette, a non-smoker would have to dine for 300 hours in a restaurant permitting smoking,³¹ 100 hours in a tavern/bar³² or between 260 and 1000 hours in a workplace permitting smoking.^{33 34} (23 Refer p.....)

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- 27 Robertson, G, "Source, Nature and Symptomology of Indoor Air Pollutants". In: Indoor and Ambient Air Quality. R Perry and P Kirk (eds.), London, Selper Ltd, 311-319, 1988.
- 28 Collett, C, et al, "A Database of Problem Buildings : Learning by Past Mistakes". In: Present and Future of Indoor Air Quality. C Bieva, et al (eds.), Amsterdam, Elsevier Science Publishers, 413-419, 1989.
- 29 Pedelty, L and Holcomb, C, "A Computer Simulation of Indoor Air Quality Which Models Changes in Point Sources and Ventilation", Environmental Technology 11:1053-1062, 1990.
- 30 Kirkbridge, J., Sick Building Syndrome : Causes and Effects, health and Welfare Canada, Ottawa, Canada, October 24, 1985.
- 31 Oldaker, G., et al., "Results From Surveys of Environmental Tobacco Smoke in Office and Restaurants". In : Indoor Air Quality H. Kasuga (ed.). Springer-Verlag, Berlin, Heidelberg, 99-104, 1990.
- 32 Hinds, W. and First, M., "Concentrations of Nicotine and Tobacco Smoke in Public Places", New England Journal of Medicine 292 (16): 844-845, 1975.
- 33 Sterling, T., et al., "Environmental Tobacco Smoke and Indoor Air Quality in Modern Office Work Environments", Journal of Occupational Medicine 26(1): 57-62.





Other scientific and technical research has demonstrated that proper ventilation, when adequately maintained, can drastically reduce the minuscule exposure levels referred to above.^{35 36 (24 Refer p.....)}

We commend the Commission to a submission made by Healthy Buildings International (HBI) on behalf of the Tobacco Institute to the NH & MRC (*Appendix III*), in which they express the ~~opinion~~ ^{view} that existing ventilation and filtration systems, if properly maintained, are ~~also invariably~~ sufficient to provide accommodation for both smokers and non-smokers; separate ventilation is not necessary to provide adequate indoor air quality for non-smoking and smoking areas; and, the rush to institute smoking restrictions or bans "misunderstand or ignores scientific, technological and medical information available concerning interaction between ventilation/filtration and ETS".

(iii) ETS and Solutions: Smoke Bans Cost Money

PML is in full agreement with an industry view that the less restrictive alternatives of ventilation and segregation must be carefully considered before legislation imposing smoking restrictions/bans can be justified, if at all.

The economic impact of total smoking bans on the hospitality industry can be dramatic, as the experience of three Californian cities illustrated; and emphasises the need to carefully consider less restrictive alternatives.

The decision to impose total smoking bans, seriously effected the financial viability of restaurants in those cities, as studies taken after the bans found, restaurants in San Luis Obispo lost 26.5%³⁷ of their business, while over half of these surveyed in Bell Flower and Beverley Hills lost in excess of 30%^{38 39}. The significantly reduced income, resulted in lower employment levels (24% of restaurants in Bell Flower reduced staff by an average 19% with an average 9% reduction over all restaurants)⁴⁰.

34 Carson, J. and Erikson, C., "Results from a Survey of Environmental Tobacco Smoke in Offices in Ottawa, Ontario", Environ Technol. Letters 9: 501-508, 1988.

35 Sterling, T. and Mueller, B., "Concentrations of Nicotine, RSP, CO and CO₂ in non-smoking areas of offices ventilated by air recirculated from smoking designated areas", AM Ind Hyg Assoc J 49(9): 423-426, 1988.

36 Turner, S., et al., "The Measurement of Environmental Tobacco Smoke in 585 Office Environments", Environment International 18:19-28, 1992.

37 "The Effects of a Ban on Smoking in Public Places in San Luis Obispo, California", L. H. Masotti and P.A. Creticos.

38 "Economists: Restaurant Study Seriously Flawed - Smoking Bans Do Hurt Restaurant Business", Joan Luther & Assoc. 23 March 1992.

39 "Don't Snuff Out Tourism" San Diego Union - Tribune 18-19 October, 1992.

40 "Effect of the Smoking Ban on Revenues, Employment, and Compensation of the Bellflower Restaurant Industry, prepared for the San Diego Tavern and Restaurant Association.

() submission to NH & MRC by Healthy Buildings International 27/1993.

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These results caused each city to lift the total smoking ban, and much less restrictive smoker/non-smoker accommodation programs have been introduced.

San Diego did not proceed with its plan to introduce a total smoking ban because, based on the 30% business decline noted in the other cities, 11,000 restaurants jobs would have been lost, and over 770 restaurant businesses would have closed⁴¹.

With regard to the question of whether ETS causes health risks in public places, we draw the Commissions' attention to the most recent legal case concerning "*passive smoking*" in a public place, the Burswood Resort Casino (WA) case, which should cause government bodies to question whether smoking bans or restrictions can legitimately be justified on public health grounds.

It is significant, in the Burswood case, that the Department of Occupational Health, Safety & Welfare was unsuccessful in its prosecution of the Burswood Casino, despite the fact that there were found to be moderate levels of ETS present in the casino.

The department alleged that casino employees were at a health risk from respiratory illness, impairment or reduced lung function due to ETS exposure.

In dismissing the claim against the casino, the court stated"

"Whilst ETS is annoying, and of discomfort to non-smokers, it has not been proved at the required standard, or at all, in this prosecution, that it is a risk to the health of the employees at the casino."
(Reasons for Judgement, page 9, 1993).

(iv) ETS : The Debate Continues

In more general terms, the late Dr A. W. Crawford questioned, whether ETS exposure posed any health risks sufficient to warrant governmental imposition of smoking restrictions, in a 1991 paper, in which he concluded:"⁴²

41 "Potential Economic Effects of a Smoking Ban in the City of San Diego", Price Waterhouse, October 1992.

42 "Environmental Tobacco Smoke in the Workplace", from "Other People's Tobacco Smoke", A. V. Armitage. Galen Press, 1991



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Philip Morris does not want children to smoke. We are opposed to the sale of tobacco to children and market our products only to informed adults.

We have persistently encouraged consumers' to act the legal purchasing age for tobacco products at 18 years; and we are addressing the problem of juvenile access to cigarettes.

M/D
In 1993, Phil launched the '10+ the Law' campaign with the aim of informing the Australian tobacco retailers that it is an offence to sell tobacco to anyone under age, and encouraging them to obey the law.

The Campaign's 'Retailer Kit' included information on the responsibilities of each retailer, and an ~~how to check for~~ age suggestion and checking. Customers ages taken on checks

The Campaign's 'Retailer Kit' included information a brochure which explained community concern with regard to underage juvenile access to cigarettes. The responsible trade laws and 'penalties', and warning signage to be placed at the point-of-purchase, as well as an entrance door,

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to ~~clearly~~ highlight to every one under age they cannot buy cigarettes in this State.

To further extend the ~~campaign~~ and emphasize the key message of this campaign, for late December 1993 we commenced distribution to 'retailers' in Victoria and South Australia

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Get in 3
Hans 1/12/88
J.H.



"From a scientific standpoint, the rush to promulgate workplace smoking restrictions is astonishing when one considers what the existing research shows" (page 127), and

"Government officials reviewing workplace smoking restriction proposals should beware the limited and inconclusive nature of the data concerning the asserted long-term health consequences of exposure to ETS in the workplace, and the growing body of data indicating that actual exposure levels are minute".

Debate on passive smoking/ETS will clearly continue. It is important for those concerned with the issue, including governments and their instrumentalities, to give proper consideration to the arguments, put forward by many authoritative sources in Australia and internationally, about indoor air quality and ventilation as a key factor for focus when considering the passive smoking/ETS issue.

Follow this
Cigarettes
5. "It's the Law" : Don't Sell to Children

While ETS and so called "passive smoking" are topics of great debate in Australia, so too, is the issue of smoking by children, and particularly their ability still to buy cigarettes despite laws which prohibit the selling of tobacco products to those under age.

- Philip Morris is serious in its intent to work with the government and businesses, particularly the tobacco retail sector, to discourage children smoking and to restrict their access to tobacco.

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~~PML does not want children to smoke and actively works to discourage smoking by young people and to limit their access to tobacco products. Smoking is an adult custom and they should be free to make an informed decision whether or not to smoke. We market only to adults, not to children.~~
and cigarettes

PML has supported moves by State and Territory governments to increase from 16 to 18 years the legal age of selling tobacco to minors. We implemented in October 1993 a national campaign, "It's The Law", (Appendix I, Section 1) informing retailers that it is an offence to sell tobacco to those under age.

The PML funded campaign was launched to 40,000 retailers, reminding them about the law and encouraging them to obey it. A kit supplied to retailers included information in respective State laws, posters and decals for display in retail outlets. In late December 1993, we commenced distribution to retailers in Victoria and South



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~~Australia~~ of buttons "*It's The Law - It's Illegal To Sell Cigarettes To Under 18s*", coinciding with the commencement of new laws on the age limit for purchasing cigarettes. The PML salesforce has reinforced the campaign objective with retailers and they continue to encourage compliance with the law.

While it is not PML's role to act as a policeman in helping to stamp out tobacco sales to minors, we support the use of laws to keep cigarettes out of their hands, and to penalise retailers knowingly breaking the law.

We acknowledge that limiting access to the purchase of cigarettes is only one step in a number of initiatives needed to discourage smoking by young people, with a continuing focus on education campaigns aimed at the young a high priority for governments, with the active involvement of companies like PML.

We are, therefore, currently considering development of a consumer campaign, focussed upon initiatives for education and training to counteract peer pressure motivation and similar factors which are acknowledged (*see 7. Cigarettes and Advertising*) as a major contributor to the problem of underage smoking.

Labelling and Health Warnings : Regulation without Logic

The issue of the marketing and promotion of cigarettes, particularly to young people, has long been the subject of attention by Australian authorities and considerable government intervention, with attention particularly in 1993, towards the moves to put greater health warnings on cigarette packs, and encroach on the valuable brand names and trademarks of manufacturers.

The Commission notes that Federal and State Governments, through the MCDS, have agreed on the need for clearer, stronger warnings to discourage people from smoking, especially to stop children taking it up.

There is neither data, nor logic, to support labelling recommended by the MCDS. The proposal to appropriate more than 50% of the cigarette package is based upon the assumptions that young people do not know of the reported health risks of smoking and modified warnings covering most of the package will somehow stop youth smoking. It is uniformly recognised, however, that peer pressure, not lack of knowledge or awareness, is the primary influence on youth smoking and that there is universal awareness in Australia on the reported adverse affects of smoking on health.

In a 1993 study by ANOP Research Services Pty Ltd (*Appendix II, Section 1*) found that the awareness of the reported health risks associated with smoking amongst



youth (15-19 years) was 100% and 99.7% of all respondents nominated health risks associated with smoking in response to a series of three open-ended questions.

In the public policy debate on the proposed new labelling and health warnings, politics has played an increasing part, with the debate emanating from an April 1992 MCDS decision to introduce new State based regulations requiring new and strong warnings. This included a requirement that the entire back of cigarette packets be taken up with prescribed warnings. (*Appendix IV*).

At the time of the July 1993 MCDS, Western Australia was the only State to have gazetted regulations, and these had already been amended significantly.

On September 28, 1993, Victorian Government gazetted labelling regulations, consistent with European standards and requiring stronger and larger warnings. The following day the Federal Health Minister announced he would use Trade Practices Regulations to override the new Victorian regulations and achieve national uniformity. In December, the ACT Government enacted labelling legislation consistent with the MCDS proposal but different from Victorian Regulations. Also in December 1993, the WA Government gazetted new regulations which are gazetted differently from those previously gazetted and amended, consistent with the MCDS proposal, but different in some aspects from the ACT legislation and of course different from the Victorian Regulations.

At the end of January 1994, manufacturers are faced with a serious dilemma: how to manufacture for a single national market within which 3 different sets of regulations come into effect on different dates and may be overridden in the foreseeable future by a fourth set of regulations, different again from those currently in place.

The minimum implementation period required by manufacturers to comply with Government mandated labelling requirements is 12 months. This time-frame has been explained in great detail to Governments, but its significance for industry has been largely ignored.

The Victorian Regulations provided a 12 month implementation period, ACT 4 months and WA 6 months. Government officials have argued that manufacturers have known for over 12 months that new labelling will be required and therefore should be in a position to implement new regulations less than 12 months after their gazetting. However, it is unreasonable to expect compliance with any proposals until they become law, or unless there has been mutual agreement that the proposed labels are reasonably necessary and the time-frame practically achievable.





If regulations are to continue to be effective in controlling certain practices across a whole range of business activities, then manufacturers cannot be expected and certainly should not be obliged to make expensive business decisions on what they think the regulations might require. Such decisions can only be made in a climate of certainty. It is unacceptable for a business alleged to be in breach of regulation to plead ignorance of them.

Similarly, it would be financially irresponsible of businesses to spend money on changing manufacturing processes on the basis of regulatory changes foreshadowed in ministerial press releases.

7. Cigarettes and Advertising : Facts Don't Support the Arguments

"There is little evidence that advertising results in additional smoking, as with many products, cigarette advertising mainly shifts consumers among brands."

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The contention that tobacco advertising influences people to smoke overlooks the function of advertising in a "mature" product market; such as the market for cigarettes, toothpaste, laundry detergent or cars.

In a "mature" market, where the product category is long established and awareness of the product is universal, advertising does not generally operate to increase overall demand. Advertising instead, operates to maintain or expand market share within the product category, to maintain the loyalty of consumers who already use the brand being advertised and to switch consumers who use other brands. Cigarettes are a long established product and awareness of cigarettes is in fact so wide spread that they are the very model of a "mature" product category.

The aim and effect of advertising for such "mature" product categories is to promote, and to provide information on, particular brands of the product, not to promote the product category itself. Many studies have found that advertising in such markets is not significantly related to aggregate product demand. For example, a 1976 survey of ten product categories identified four categories in which advertising and primary demand were related. But those four markets each were in the early stage of the product's life cycle. Cigarettes were one of the remaining six product categories in which primary demand was found to be unrelated to advertising.⁴⁴ Thus, denying

43 US President's Council of Economic Advisors. Economic Report of the President 186 (1987).

44 J. Lambin, "Advertising, Competition, and Market Conduct", in *Pligopoly Over Time* (1976). See also Baltagi, B.H. and Levin, d. estimating Dynamic Demand for Cigarettes Using Panel Data, *Review of Economics and Statistics* 68, 14-55 (1986); Ball and R. Agarwalda, "An Econometric Analysis of the Effects of Generic Advertising on the Demand for Tea in the UK", *British Journal of Marketing*, Vol. 4 91969); K Palda, *The Measurement of Cumulative Advertising Effects* (1964); L. Telser, "Advertising and



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product information to consumers (which effectively limits competition) will not effect broad consumer demand patterns. Government policies which aim to reduce smoking prevalence by instituting advertising bans are therefore extremely unlikely to have any impact⁴⁵.

The fact is that, in "mature" markets, advertising and consumption are unrelated, thus there is no relation between smoking incidence - in juveniles or adults - and advertising restrictions. Indeed, numerous studies indicate that consumption is declining in many countries where advertising is allowed, while increasing in countries where it is prohibited.^{46, 47, 48, 49}

For example, in Finland, where tobacco product advertising has been banned since 1978, a 1991 study published in the Finnish Medical Gazette ⁵⁰ reported that smoking increased in Finland until 1976, two years before tobacco product advertising was banned. Then:

"The consumption of tobacco products and smoking among young people started to fall. However, in the mid 1980's the figures once more started to rise, and on the basis of the situation of the early 1990's, smoking does not appear to be decreasing at the moment".

Tobacco product advertising has been banned in Norway since 1975, yet a study by Gotestam et al published in the Journal of Norwegian Medical Association, 1990, ⁵¹ reported that *"The total incidence of daily smoking among Norwegian adults (defined as persons 15 years of age and older) remained essentially unchanged between 1979 (38%) and 1989 (36%)"* and, in 1992 when further assessing the hypothesis that an advertising ban leads to reduced tobacco sale and to reduced smoking in Norway, Gotestam et al concluded, *"The results supported neither hypothesis"*, and that *"The*

Cigarettes," Journal of Political Economy, Vol. 70 (1962). An excellent review of these and other studies may be found in D. Aaker and J. Carman, "Are you Over Advertising? A Review of Advertising - Sales Studies," Journal of Advertising Research, Vol.22, No.4 (Aug-Sept. 1982).

- 45 Michael J. Waterson, "Advertising and Tobacco Consumption: An Analysis of the Two Major Aspects of the Debate", International Journal of Advertising 59, 71 (1991). Research has shown that consumption is much more directly related to levels of disposal income than to levels of disposal income than to levels of advertising. R.C. Quarles and L.W. Jeffres, Advertising and National Consumption", Journal of Advertising 12(2) 13 (1983). Masironi of WHO has noted that the richest countries generally have the highest per capita consumption of tobacco (above 2600 cigarettes per adult per year), while the poorest countries generally have the lowest per capita consumption of tobacco (below 1300 cigarettes per adult per year). Masironi, "Smoking Trends Worldwide", Proceedings of the 7th World Conference on Tobacco and Health, p.269 (1991).
- 46 United States, Federal Trade Commission, Testimony before a sub committee of the US House of Representatives, 100th Cong., 1st Sess., 23 April, 1987.
- 47 WHO "Tobacco in Eastern Europe" 16(10), World Smoking and Health, (1991).
- 48 Taiwan Tobacco and Wine Monopoly Board, 1990 Survey P.I.
- 49 Japan Tobacco Industry, "National Smoking Incidence Survey in 1991", P.2 (Dec, 1991)
- 50 Paavola, M., Tikkanen, J., Heloma A., and Koskela, K., Research on Attitudes Toward Smoking and Finland, Suomen Laakarilehti, 46, 1981/8: 721-724.
- 51 Gotestam, K.O. and Gotestam, K.G. "Smoking and Attitudes Toward Smoking in Norway", Tidsskr nor Laegeforen, 1990, 17 (110): 2260-1.



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(b)

Michael Waterson in his article "Advertising and Tobacco Consumption" points out that ⁽⁵⁶⁾
"those countries which have experienced the most rapid falls in tobacco consumption have not been the countries which have banned advertising..."

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He quotes figures from recognised statistics bureau that demonstrate that between 1975 and 1987:

- * The Netherlands (where tobacco advertising is permitted) experienced a 41 % decrease in per capita cigarette consumption
- * The United Kingdom (where tobacco advertising is permitted) has experienced a 28 % decrease in per capita cigarette consumption.
- * Portugal and Italy (which have had tobacco advertising bans since 1983) experienced increased cigarette consumption.
- * Norway (which has had an advertising ban since 1975) experienced only a 5 % decrease in cigarette consumption.

Waterson's observations, including the following, are inconsistent with the unproven hypothesis that advertising restrictions reduce tobacco consumption:

"...it is interesting to note that tobacco consumption has generally risen in recent years in Eastern Europe (where there is little or no advertising) and has generally fallen in Western Europe (where tobacco advertising is allowed)".

The most recent research available (updating much of Waterson's data) further tends to establish that eliminating tobacco advertising may actually be counter-productive in governmental attempts to reduce cigarette consumption (Stewart 1993). ⁽⁵⁷⁾ Stewart conducted a cross-sectional time-series regression study of twenty-three OECD countries over twenty-seven years and concluded that the average effect on consumption in the six countries with advertising bans was a small increase (emphasis added). For example, Iceland which has had a ban since 1971, showed a 9 % increase in tobacco consumption. Norway (banned since 1975) had no change; Finland (banned since 1975) showed an 11 % increase; Italy and Portugal (banned since 1983) went up 4 %. On the other hand, in Britain where there has been no ban, tobacco consumption was down 28 %.

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enacted legislation does not seem to have affected either tobacco sale or the number of regular smokers in Norway"⁵².

Consistent with this conclusion, a team of anti-tobacco researchers told the 7th World Conference on Tobacco and Health in 1991:⁵³

"Although Norway, in many respects, has been a pioneer in the campaign against tobacco, the prevalence of smoking in Norway has changed very little in the past eight years. The prevalence of daily smoking among men was reduced from 52% in 1973-1974 to 40% in 1981. This percentage has remained nearly constant since then. Among women, the prevalence rate of regular smoking has been constant, about 32 - 33% since 1973 "During the period when the prevalence of regular smoking was constant in Norway, the prevalence of regular smoking in the US was reduced by between 1/3 and 1/4".

Major cross country studies disclose similar findings. A 16 country study of eight Soviet Bloc and eight Free-Market countries⁵⁴ disclosed that smoking increased sharply in some cases, between 1970 and 1984 despite advertising bans or strict controls which existed during this period, and in

in Eastern European countries, data from the World Health Organisation⁵⁵ indicate that sales of cigarettes rose between 4 and 22 per cent from 1975 to 1989 even though cigarette advertising was not allowed.

As with adult smoking incidence, surveys on smoking trends among young people in countries where cigarette advertising has been banned or severely restricted, have found that these decisions have been ineffective in reducing smoking among their young people^(43,44,45 Refer p.....). If advertising were a significant influence on smoking among juveniles, one would expect juvenile smoking to be higher where tobacco advertising is permitted than where it is not. But a WHO survey⁵⁶ found "no systematic differences" between juvenile smoking in countries where tobacco advertising is banned and in those countries where it is not. Indeed the WHO survey and three Children's Research UNIT studies⁵⁷ disclose that the incidence of smoking

52 Gotestam, K.O. and Gotestam, K.G. "Changes in Smoking Legislation, Attitudes, and Behaviour", Psychological Reports, 1992, 70: 531-7.

53 T. Samner, et al. "Action Plan, Smoke-Free Norway Year 2000" 7th World Conference, pp 317-18.

54 J. Boddewyn ed. "Tobacco Advertising Bans and Consumption in 16 Countries". International Advertising Association, 1986.

55 WHO, "Tobacco in Eastern Europe" 16(1) World Smoking and Health (1991).

56 Aaro, Wold, Kannas & Rimpela, "Health Behaviour in School Children, A WHO Cross-National Survey", Health Promotion, Vol 1, No. 1, p.32 (1986)

57 Children's Research Unit, "Why Do Juveniles Start Smoking?", Boddswyn ed. 1987.

Children's Research Unit, "An examination of the factors influencing juvenile smoking initiation in Canada", 1987.

Children's Research Unit, "Juvenile Smoking Initiation and Advertising", Boddswyn ed. 1989.

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among young people is higher in many countries where advertising is banned than where is not.

Those in favour of banning or restricting tobacco product advertising assert that advertising not only influences adult smokers to continue smoking, but that it also causes children and teenagers to decide to smoke.

In a study focussing on the prevalence of youth smoking among school children in 1986-1987,⁵⁸ Aaro and two colleagues found that the countries with the highest incidence of youth smoking are those in which tobacco advertising is banned, while the countries with the lowest incidence of youth smoking are those in which some tobacco advertising is permitted.

For example, in both Finland and Norway, where tobacco advertising has been banned for more than a decade, Aaro and his colleagues found that 29 percent of the 15-16 year old boys and 20 percent of the 15-16 year old girls were daily smokers in Finland; while in Norway 16 percent of the 15-16 year old boys and 17 percent of the 15-16 year old girls were daily smokers.

In both Austria and Switzerland, by contrast, tobacco advertising is permitted, and Aaro et al noted:

"12 percent of the 15-16 year old boys and 13 percent of the 15-16 year old girls were daily smokers in Austria, and 10 percent of the 15-16 year old boys and 12 percent of the 15-16 year old girls were daily smokers in Switzerland."

Significantly, in Hong Kong a government sponsored study⁵⁹, no children mentioned advertising as a reason for smoking; and in Singapore⁶⁰, where tobacco product advertising has been banned since 1970, the Health Ministry claims that smoking among 15-19 year old boys jumped from 5.5. percent in 1987 to 12.3 percent in 1991, and that smoking among 15-19 years old girls increased during the same period from 0.1 percent to 0.7 percent.

A "Special Report on the Impact of Tobacco Advertising" published in the International Journal of Advertising in 1990⁶¹ reiterates these conclusions:

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- 58 J. van Reek, H. Adriaanse and L. Aar, "Smoking by Schoolchildren in eleven European Countries, "Proceedings of the 7th World Conference on Tobacco and Health", p.301 (Perth 1991) (7th World Conference)
- 59 A.B. Herts, "Smoking Among Junior Secondary School Children in Hong Kong in 1990", Hong Kong Council on Smoking and Health, 1990.
- 60 "More Smoking Despite Campaign", The Sunday Times, May 24, 1992
- 61 Van Raaij, W.F., "The Effect of Marketing Communication on the Initiation of Juvenile Smoking", International Journal of Advertising 31-32 (1990) (citation omitted).

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"Cross-national studies on smoking indicate that the prevalence of smoking is high in countries with an almost complete ban on tobacco advertising (Australia, Canada, Norway and Sweden) and low in countries with a more liberal advertising climate (Argentina, Hong Kong, Japan, Kenya, and the Philippines). This indicates that any reinforcing and justifying effect of advertising does not cause adolescents to start smoking".

~~Dr. Colin McDonald in a paper based on a detailed review of research studies which claim to demonstrate a connection between advertising and children starting or continuing to smoke,⁶² concluded that there is no evidence to support the proposition that advertising or sponsorships make "the least difference to the propensity of children to smoke".~~

So far as young people are concerned, the most forceful determinants of smoking are parents, peers and older siblings,⁶²⁻⁶⁵ and before launching their attack on cigarette advertising, anti-smoking advocates and government researchers appeared to acknowledge that these factors are the primary influences on smoking by young people.

- In 1983, Dr. Mortimer Lipsett, the Director of the US National Institute of Child Health and Human Development, testified that *"The most forceful determinants of smoking (by young people) are parents, peers, and older siblings"*.⁶⁶ Dr. Lipsett also noted:⁶⁵
- *"If one parent smokes, the child is twice as likely to smoke as one reared in a non smoking household. If both parents or one parent and an older sibling smoke, the chances become four to one. If the child's best friend smokes, there is a 90 percent probability that the child will smoke too"*.⁶⁷ 66

- 62 Dr. Colin McDonald, "Children, Smoking and Advertising: What Does the Research Really Tell Us?" International Journal of Advertising, 1993
- 63 S. Ward, D. Wackman, E. Wartella "How Children learn to Buy: The Development of Consumer Information" processing skills (1979).
- 63-64 W. Fred, van Raaij, "The Effect of Marketing Communication on the Initiation of Juvenile Smoking", International Journal of Advertising, 1990.9, 15-36.
- 64-65 "Why Children Start Smoking" Brit. J. Addict. 87:(1) 17-25 (1992).
- 65-66 Smoking Prevention Act: Hearings on H.R. 1824 before the Subcomm. on Health and the Environment of the House Comm. on Energy and Commerce, 98th Cong., 1st Sess. 53 91983 (Statement of Mortimer B. Lipsett, M.D.)
- 66-67 Ibid. (emphasis added).

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Researchers looking at the long-term correlation of factors provide further support for the thesis that peers are the most dominant influence in youth smoking.⁶⁸ These findings reflect a world-wide phenomenon and are not limited to the United States.

- The Swedish National Smoking and Health Association concluded in 1983 that *"the smoking habits of young people are dependent on the smoking habits of their parents"*.⁶⁹
- Monique Begin, then Canada's Minister of National Health and Welfare, stressed in a 1983 address that *"The people who most influence a child to start smoking are his or her friends and family"*.⁷⁰
- WHO Four Country Survey 1983/84, published 1986 (Refer p....) found.

"When young people start smoking, the most important predictor is the smoking behaviour and smoking related activities of significant others".

Particularly instructive is the testimony in 1986 before the House Subcommittee on Health and the Environment by Dr. Roger D. Blackwell, Professor of Marketing at Ohio State University, and Dr. Scott Ward, Professor of Marketing at The Wharton School, University of Pennsylvania.⁷¹ Dr. Blackwell explained that:

"From his parents a child acquires basic attitudes toward smoking. The more the parents smoke, the more likely the child will smoke; the more the parents discourage smoking the less likely the child will smoke".

"Friends also play a significant role in the youngster's decision to try smoking and become a smoker. And so does the image of the smoker that most children develop. Children report a distinct image of the stereotypical smoker, and it is not the flattering image that anti-tobacco advocates attribute to cigarette advertising".

"The stereotypical smoker is viewed by children as less educationally successful, less healthy, and 'tougher' than the stereotypical non-smoker, and

68 L.L. Pederson & N.M. Lefcoe, Short and Long-term Prediction of Self-Reported Cigarette Smoking in a Cohort of Late Adolescents: Report of an 8 Year Follow up of Public School Students Preventive Medicine 16(3), 432, 442-43 (May 1987)

69 Smoking Control in Sweden 9 (1983).

70 Begin, "Address to the fifty World Conference on Smoking and Health", proceedings on the 5th World Conference on Smoking and Health, Vol. 1, p.26 (Winnipeg, 1983) (5th World Conference).

71 Advertising of Tobacco Products: Hearings before the Subcomm. on health and the Environment of the House Comm. on Energy and Commerce, 99th Cong., 2d Sess. (1986). Dr Blackwell is co-author of a leading textbook on consumer behaviour in the U.S., and Dr. Ward is the author of a widely used marketing management casebook in the U.S.

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(d)

Dr Colin McDonald in a paper based on a detailed review of research studies which claim to demonstrate a connection between advertising and children starting or continuing to smoke () made the following observations :

- o It is clear that none of the research evidence proves that advertising causes children to smoke. The circumstantial evidence quoted above from the studies themselves show that it is not a particularly likely hypothesis. (Page 285).
- o The true implication of the findings from these research studies is that advertising is at best of very minor importance, and quite possibly of no importance at all, as a factor in persuading children to start or continue smoking. (Page 285).
- o Concerning Simon Chapman's 1988 conclusion that cigarette brand sponsorship insidiously induces children to smoke, Dr. McDonald stated as follows: It is easy to make this kind of argument emotively appealing by the use of terms such as "vulnerable" and "insidious"; but the suggestion that advertising messages are somehow working subliminally to twist children's minds before they are old enough to know better is a complete invention, for which there is no evidence whatever. (Page 286).
- o Of all the influences which might help to make smoking attractive to a child, the one suggesting that a particular brand name has advertised or sponsored motor racing seems, even on the evidence shown, to be the most feeble. (Pages 286-287).

Based on his research, Dr McDonald concluded that there is no evidence to support the proposition that advertising or sponsorships make "the least difference to the propensity of children to smoke"



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non-smokers generally view other non smokers as more desirable to have as friends than smokers".

"None of the research suggests that advertising influences children to view smoking in a positive light, we are talking about not intent but actual response among the children. To the contrary, the research that is available revealed in young people a scepticism and distaste for cigarette advertising".

Clearly, three factors flow from these various studies, (a) there is no evidence to support the view that a ban on advertising would have a positive effect on smoking habits, (b) no empirical research has been able to show that tobacco products advertising leads to greater tobacco consumption, and (c) there is no evidence to suggest that advertising entices non-smokers, particularly young people, into becoming smokers.

PML believes therefore that its opinion that advertising does not promote the uptake of smoking is fully supported. Thus the virtually total bans applying in Australia to the advertising of tobacco products, are both insupportable and unreasonable constraints on the company's ability to communicate with smokers; and impose unnecessary commercial constraints on the company's ability to market its products in an intensely competitive market. Products which are, in fact, legal to produce and consume.

The same holds true for bans imposed on tobacco company sponsorship which do not in fact constitute advertisements.

~~The cost to the Australian economy of these prohibitions is yet to be determined. These are immediate and substantial losses which are suffered by the providers of the services which are no longer lawful. These losses are incurred by the advertising industry, the print production industry and, not least, by the media, print and outdoor, which published tobacco advertisements. The cost of the loss of sponsorship is more difficult to assess and is yet to be fully experienced. It is likely that the impact on Australia's cultural and sporting activities will be substantial as the availability of corporate support for the arts, for cultural institutions, sporting bodies and events declines significantly.~~

~~Whether government intervention was appropriate should include an assessment of any benefits which flow from the proscription of tobacco advertising and sponsorship. Apart from the dubious benefits of pandering to special interest groups who oppose the production and sale of tobacco products, it is questionable that the prohibitions have produced any benefit in advancing legitimate government policies. As with most other forms of government intervention, the rationale for bans on tobacco advertising~~



and sponsorship was to reduce the incidence of smoking, particularly among young people.

CONCLUSION

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